



The Pakistan Credit Rating Agency Limited

## Rating Report

### Askari Bank Limited

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#### Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action   | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 25-Jun-2022        | AA+              | A1+               | Stable  | Maintain | -            |
| 25-Jun-2021        | AA+              | A1+               | Stable  | Maintain | -            |
| 26-Jun-2020        | AA+              | A1+               | Stable  | Maintain | -            |
| 28-Dec-2019        | AA+              | A1+               | Stable  | Maintain | -            |
| 28-Jun-2019        | AA+              | A1+               | Stable  | Maintain | -            |
| 27-Dec-2018        | AA+              | A1+               | Stable  | Maintain | -            |
| 20-Jun-2018        | AA+              | A1+               | Stable  | Maintain | -            |
| 29-Dec-2017        | AA+              | A1+               | Stable  | Maintain | -            |
| 22-Jun-2017        | AA+              | A1+               | Stable  | Maintain | -            |

#### Rating Rationale and Key Rating Drivers

Askari Bank has impeccable ownership structure. The rating of the bank incorporates the same. The bank has a strong brand image, flanked by its affiliation with one of the strongest conglomerate, Fauji Group. This represents strong ownership of the bank. This association has provided fruits in terms of market penetration, customer confidence, sustainable funding sources and avenues for generating mark-up and non-mark-up based income stream. Lately, retention of profits in the bank to bolster the capital structure is also a testimonial of support. During CY21, net markup income increased to PKR 32.4bln (CY20: PKR 30.2bln) where mix is sizably tilted towards mark-up earned from investments. Non mark up income with strong share of fee and commission along with foreign exchange income remained largely same, during CY21. Higher provisioning expense and operating expenses led to decline in net profitability. At end-Dec21, a significant increase has been witnessed in advances base of the bank, along with volumetric surge in investment book of the bank and asset quality improved as infection ratio Inched down to 6.1% (CY20: 6.8%). The Bank's CAR recorded at 13.4% at end-Dec21 where Tier 1 capital concentration stand at 11.7% Going forward, strengthening of CAR will remain essential to fuel growth. Askari Bank has shown stable growth rate over the years as evident by significant increase in market share in terms of deposits clocking in at 5.1% (CY20: 4.7%). The new leadership is looking forward to focus on strengthening business sustainability. Bank's updated strategy is to focus on growing its market share in retail segment, particularly low cost deposits and consumer products. Pakistan's economy has gone through several varied phases in last two years due to the COVID19 pandemic. Banking sector continued to flourish with high profitability. Going forward, the macro-economic environment is beset with myriad challenges due to heightened interest rate, tightening of demand, rupee depreciation and higher inflation. This has repercussions for all segments of the economy.

The ratings are dependent upon sustainability of the bank's relative positioning. Prudent management of CAR remains of vital importance, going forward. Meanwhile, holding the asset quality is a pre-requisite.

#### Disclosure

|                              |  |
|------------------------------|--|
| <b>Name of Rated Entity</b>  | Askari Bank Limited  |
| <b>Type of Relationship</b>  | Solicited  |
| <b>Purpose of the Rating</b> | Entity Rating  |
| <b>Applicable Criteria</b>   | Methodology   Financial Institution Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21) |
| <b>Related Research</b>      | Sector Study   Commercial Bank(Jun-22)   |
| <b>Rating Analysts</b>       | Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504  |



## Profile

**Structure** Askari Bank Limited (AKBL), incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1992.

**Background** The registered office of the Bank is situated at AWT Plaza, the Mall, Rawalpindi and head office is located in Islamabad. The bank has a steady presence in Islamic banking as well. Started in 2006, the bank provides a range of shariah compliant products under its Islamic brand name 'Ikhlas'

**Operations** The Bank is a scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962. The Bank, with its head office in Islamabad, operates with a network of 560 branches at end-Mar22 (CY21: 560 branches); 559 in Pakistan and Azad Jammu and Kashmir including 105 (CY21: 101) Islamic Banking branches and 56 (CY21: 56) sub-branches and a Wholesale Bank Branch (WBB) in the Kingdom of Bahrain.

## Ownership

**Ownership Structure** Fauji Consortium owns 72% stake of the Bank. The remaining stake of 28% is widely spread among financial institutions, and general public.

**Stability** Over the years, Fauji Group has emerged as one of the leading conglomerates of the country with established business interests in numerous sectors and industries.

**Business Acumen** The Fauji Group comprising several industrial/commercial projects in various sectors including energy, gas supply, fertilizer, cement, food etc, includes wholly owned as well as partly owned ventures.

**Financial Strength** Fauji Group is one of the leading and most diversified groups in Pakistan. The group has a strong equity and asset base. Over the years the group has stretched its business profile by entering into new industries, providing it diversity; in revenue streams, strong brand image and an increased hands-on knowledge of the various sectors of the economy.

## Governance

**Board Structure** Overall control of the Bank vests in the eleven-member Board of Directors (BoD) including the President and CEO. Five of the board members are Fauji Foundation nominees; four are independent members, while one represents NIT

**Members' Profile** The members carry diversified experience with quality education. Members have experience in Financial Institutions (Banking, AMCs), public sector entities, Oil and Gas, Power, Fertilizer, IT etc. The key competencies have strong business correlation.

**Board Effectiveness** There are four board committees in place; i) Board Audit Committee, ii) Board Risk Management Committee, iii) Board Human Resource and Remuneration Committee, and iv) Board Information Technology Committee, which help the Board in effective oversight of the Bank's overall operations on relevant matters.

**Financial Transparency** KPMG Taseer Hadi & Co. Chartered Accountants are the external auditors of the bank. The auditors expressed an unqualified opinion on the bank's financial statements for the year ended December 31, 2021.

## Management

**Organizational Structure** The President & CEO, Mr. Atif Riaz Bokhari has extensive expertise, both local and international in the financial services industry.

**Management Team** The Bank has thirteen management committees in place to oversee its day-to-day operational matters. The committees ensure, that the bank is aligned with its current strategy. Going forward, sustainability and cohesiveness of the team would remain important to continue the growth trend.

**Effectiveness** AKBL's operations are currently divided in 26 functions, out of which 12 are directly reporting to the President. Chief Internal Auditor reports to the Board Audit Committee.

**MIS** AKBL has made considerable investment in the IT infrastructure. The bank has implemented Flexcube (developed by Oracle financial services and installed at multiple sites worldwide), as its core banking software. Bank has implemented an Oracle based risk solution. Further, loan origination system is at advance stage of implementation.

**Risk Management Framework** The Bank has a robust Risk Management Framework driven by the Board Risk Management Committee and managed by Risk Management Group. Risk Management Group is headed by the Chief Risk Officer (CRO), who is overseeing independent functions for management of Credit, Market/Liquidity, Information Security, Policy Transformation and Operational Risk.

## Business Risk

**Industry Dynamics** Pakistan's economy has gone through several varied phases in last two years. It was deeply impacted by the magnitude of the COVID19 pandemic. The economic activity revived afterwards and Pakistan posted a GDP growth rate of ~4.0% in FY21 after a contraction in economy of -0.4% in FY20 (GDP growth figures were revised after base year was changed from FY05-06 to FY15-16). Banking sector continues to flourish with high profitability. Banking sector weightage is approximately ~25% of the KSE 100 index. Total banking assets posted growth of ~19% YoY whilst investments surged by 21% YoY to PKR ~14.4trln (end-Dec20: PKR ~11.9trln). Gross Advances of the sector recorded growth (23%) to stand at PKR ~10.9trln (end-Dec20: PKR ~8.8trln). Non-performing loans witnessed slight uptick of 4% to PKR ~860bln. Capital Adequacy Ratio stood at 16.7% (regulatory requirement of 11.5%). During CY21, banking sector deposits enhanced to PKR ~21.6trln (grew by ~17%). Hence, ADR rationalized to 47% (end-Dec20: ~45%). Net profitability of the sector recorded at PKR ~267bln (CY20: PKR ~244bln); up 9% YoY. However, growth of equity base of the sector recorded meagre uptick of 0.8% YoY attributable to handsome dividend payout.

**Relative Position** AKBL, a medium sized bank, holds a customer deposit base of PKR 1,008.4bln at end-Dec21 (end-Dec20: PKR 783.5bln). The market share of deposits of the bank increased to 5.1% (end-Dec20: 4.9%).

**Revenues** During CY21, AKBL's NIMR witnessed an increase of 7% YoY to stand at PKR 32.4bln (CY20: PKR 30.3bln), where mark up income decreased by 1.96% to stand at PKR 77.5bln (CY20: PKR 79.1bln). Bank's asset yield inched down to 7.9% (CY20: 9.9%). Consequently, spread of the bank inched down to 3.5% (CY20: 4.1%). During 1QCY22, NIMR increased by 11% to stand at PKR 8.4bln (1QCY21: PKR 7.6bln). Asset yield clocked in at 9.7% and spread moved to 3.3%.

**Performance** During CY21, non-mark-up income decreased by 3.3% to stand at PKR 9.3bln (CY20: PKR 9.6bln). Non-markup expenses increased by 4.9% YoY, to stand at PKR 21.2bln (CY20: PKR 20.2bln). However non-markup expenses to total income marginally increased to 50.7% (CY20: 50.6%). Net profit decreased by 10% and stood at PKR 9.7bln (CY20: PKR 10.8bln). During 1QCY22, net profit increased 33.3% to stand at PKR 3.6bln (1QCY21: PKR 2.7bln).

**Sustainability** Askari Bank plans are focused on strengthening business sustainability supported by enhanced governance, compliance, credit and overall risk management culture to ensure a solid foundation. Bank's updated strategy is focused on growing its market share in retail segment, particularly low-cost deposits and consumer products. Greater emphasis will be on boosting trade volumes, increased penetration in cash management with focus on SME, Commercial segments and strategic relationships. Customer experience remains a key priority aided by continued initiatives in the areas of process improvements, digitization, automation and data analytics.

## Financial Risk

**Credit Risk** At end-Dec21, AKBL's gross advances registered a growth of 21.1% YoY to stand at PKR 476.7bln (CY20: PKR 395.3bln). The Bank's gross Advances to Deposits ratio (ADR) decreased and was reported at 47% (CY20: 50.0%). Asset quality improved as infection ratio decreased to 6.1% (CY20: 6.8%). At end-Mar22, advances grew to PKR 465.1bln. Infection ratio recorded at 6.3%.

**Market Risk** At end-Dec21, the investment portfolio showed an expansion of 37% to PKR 616.3bln (CY20: PKR 449.9bln). Government securities continue to dominate the overall investment book (CY21: 98.3%; CY20: 97.7%) excluding debt instruments. At end-Mar22, investment book inched up to PKR 615.4bln.

**Liquidity And Funding** At end-Dec21, customer deposits increased to PKR 1,008.4bln (end-Dec20: PKR 783.5bln), up by 29%. Subsequently, the bank's deposit share in the market is increased 5.1% (end-Dec20: 4.9%). CA and SA proportion stood at 30.5% (end-Dec20: 31.8%) and 49.2% (end-Dec20: 55.3%). At end-Mar22, customers deposit recorded at PKR 987.4bln. CA and SA proportion stood at 29.5% and 51.2%.

**Capitalization** At end-Dec21, the bank reported CAR of 13.4% (CY20:15.48%), comprising of Tier I capital 11.66% (CY20: 12.3%), remaining compliant with the minimum requirement by SBP. At end-Mar22, CAR recorded at 13.78%.



PKR mln

**Askari Bank Limited**  
**Listed Public Limited**

| Mar-22 | Dec-21 | Dec-20 | Dec-19 |
|--------|--------|--------|--------|
| 3M     | 12M    | 12M    | 12M    |

**A BALANCE SHEET**

|  |                  |                  |                |                |
|--|------------------|------------------|----------------|----------------|
| 1 Total Finances - net                     | 479,222          | 490,140          | 404,360        | 382,834        |
| 2 Investments                              | 602,821          | 604,369          | 439,944        | 294,616        |
| 3 Other Earning Assets                     | 21,617           | 10,853           | 13,019         | 35,754         |
| 4 Non-Earning Assets                       | 159,907          | 154,342          | 134,437        | 119,104        |
| 5 Non-Performing Finances-net              | (863)            | (560)            | 758            | 900            |
| <b>Total Assets</b>                        | <b>1,262,705</b> | <b>1,259,144</b> | <b>992,517</b> | <b>833,208</b> |
| 6 Deposits                                 | 997,539          | 1,015,430        | 791,187        | 679,299        |
| 7 Borrowings                               | 147,016          | 135,564          | 96,164         | 61,180         |
| 8 Other Liabilities (Non-Interest Bearing) | 59,834           | 52,248           | 50,620         | 50,473         |
| <b>Total Liabilities</b>                   | <b>1,204,389</b> | <b>1,203,242</b> | <b>937,971</b> | <b>790,952</b> |
| <b>Equity</b>                              | <b>58,315</b>    | <b>55,902</b>    | <b>54,546</b>  | <b>42,256</b>  |

**B INCOME STATEMENT**

|                                   |               |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|
| 1 Mark Up Earned                  | 26,744        | 77,550        | 79,105        | 71,704        |
| 2 Mark Up Expensed                | (18,291)      | (45,140)      | (48,842)      | (49,569)      |
| 3 Non Mark Up Income              | 2,528         | 9,370         | 9,694         | 7,404         |
| <b>Total Income</b>               | <b>10,981</b> | <b>41,779</b> | <b>39,957</b> | <b>29,540</b> |
| 4 Non-Mark Up Expenses            | (5,056)       | (21,194)      | (20,215)      | (18,377)      |
| 5 Provisions/Write offs/Reversals | 172           | (4,940)       | (1,975)       | (773)         |
| <b>Pre-Tax Profit</b>             | <b>6,097</b>  | <b>15,645</b> | <b>17,767</b> | <b>10,389</b> |
| 6 Taxes                           | (2,492)       | (5,944)       | (6,967)       | (3,372)       |
| <b>Profit After Tax</b>           | <b>3,605</b>  | <b>9,701</b>  | <b>10,800</b> | <b>7,017</b>  |

**C RATIO ANALYSIS**

**1 Performance**

|                                     |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| Net Mark Up Income / Avg. Assets    | 2.7%  | 2.9%  | 3.3%  | 2.9%  |
| Non-Mark Up Expenses / Total Income | 46.0% | 50.7% | 50.6% | 62.2% |
| ROE                                 | 25.3% | 17.6% | 22.3% | 18.5% |

**2 Capital Adequacy**

|                               |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|
| Equity / Total Assets (D+E+F) | 4.6%  | 4.4%  | 5.5%  | 5.1%  |
| Capital Adequacy Ratio        | 13.8% | 13.4% | 15.5% | 13.4% |

**3 Funding & Liquidity**

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Liquid Assets / (Deposits + Borrowings Net of Repo) | 58.8% | 58.7% | 57.3% | 47.7% |
| (Advances + Net Non-Performing Advances) / Deposits | 46.7% | 47.0% | 50.0% | 54.9% |
| CA Deposits / Deposits                              | 29.5% | 30.5% | 31.8% | 28.7% |
| SA Deposits / Deposits                              | 51.2% | 49.2% | 55.3% | 53.4% |

**4 Credit Risk**

|  |       |       |      |      |
|--|-------|-------|------|------|
| Non-Performing Advances / Gross Advances | 6.3%  | 6.1%  | 6.8% | 7.1% |
| Non-Performing Finances-net / Equity     | -1.5% | -1.0% | 1.4% | 2.1% |

**Credit Rating**

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

| Scale | Long-term Rating Definition   |
|-------|---|
| AAA   | <b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments  |
| AA+   |   |
| AA    | <b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.   |
| AA-   |   |
| A+    |   |
| A     | <b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.  |
| A-    |   |
| BBB+  |   |
| BBB   | <b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.   |
| BBB-  |   |
| BB+   | <b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.                           |
| BB    |   |
| BB-   |   |
| B+    |   |
| B     | <b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.  |
| B-    |   |
| CCC   |   |
| CC    | <b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default. |
| C     |   |
| D     | Obligations are currently in default.   |

| Scale | Short-term Rating Definition  |
|-------|---|
| A1+   | The highest capacity for timely repayment.  |
| A1    | A strong capacity for timely repayment.   |
| A2    | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.                  |
| A3    | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.                |
| A4    | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

|  |   |
|--|---|
| <p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul> | <p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul> |
|--|---|

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### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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